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News Release

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Jury convicts Minneapolis mother and son of defrauding State of Minnesota out of $2.1 million

Earlier today a federal trial jury in Minneapolis convicted a Minneapolis mother and her son of defrauding the Minnesota Department of Revenue out of $2.1 million by causing the filing of false tax returns. Following a three-week trial, the jury found Carolyn Louper-Morris, president and CEO of CyberStudy 101, a company that claimed to offer online educational assistance, and William J. Morris, Jr., the company's vice president and general counsel, guilty of filing on behalf of others thousands of Minnesota tax returns that fraudulently claimed the Minnesota education tax credit. Specifically, Carolyn Louper-Morris, age 63, and William J. Morris, Jr., age 42, were convicted of one count of conspiracy to commit mail and wire fraud and five counts of wire fraud. Carolyn Louper-Morris also was convicted of six counts of mail fraud, while William J. Morris, Jr., was convicted of five counts of mail fraud. In addition, William Morris was convicted of one count of making and subscribing a false tax return. The defendants were indicted on February 26, 2008.

Following the jury's verdict, Julio LaRosa, Special Agent in Charge of the IRS-Criminal Investigation Division, one of the lead investigative agencies in this case, said, "The Internal Revenue Service's Criminal Investigation Division takes particular interest in cases where someone, for their own personal benefit, has misled many and take what belonged to others. In this case, our agents used their financial expertise to follow the money trail and unravel a financial scheme designed to abuse the law and line the pockets of the perpetrators. We value the partnership with our fellow law enforcement agencies and are pleased with the successful resolution of this investigation."

According to the evidence presented at trial, Carolyn Louper-Morris owned 51 percent of CyberStudy 101, a privately held Minnesota corporation, while her son controlled the remaining interest in the company. In 2000, the pair conspired to market CyberStudy 101 as an Internet-based tutorial for students in Grades K-12. Their efforts were designed to take advantage of the

Minnesota education tax credit, as evidenced by the fact that only those families qualifying for the credit were allowed to sign up for the tutorial.

The Minnesota education tax credit initiative provides low-income residents an opportunity to obtain a tax credit for obtaining supplemental educational instruction for their children. Through the initiative, taxpayers list on their Minnesota income tax returns all qualified educational expenses. Those expenses reduce the amount of income taxes owed and often lead to tax refunds, even for families not normally required to file returns. The education tax credit guidelines allow taxpayers to claim up to $1,000 in expenses per child, with a maximum of $2,000 per family.

CyberStudy charged families with one child $999 for its tutorial program and $1,499 to families with two or more children. The defendants assured taxpayers, however, they would incur no out-of-pocket costs for the program. Instead, they would simply assign their education tax credits to CyberStudy and give the company authority to file tax returns on their behalf. To entice customers further, the defendants promised clients, among other things, free computers. They also lauded the CyberStudy tutorial, including its age-appropriate courses, multi-lingual study tools, and instantly graded online tests. But, contrary to those representations, in 2000, 2001, and 2002, the tutorial did not provide the courses or features promised to CyberStudy customers. As for the free computers, CyberStudy contracted with K-Mart for them in 2000 at a price of $529 a piece. CyberStudy then distributed more than 2,000 units but never paid K-Mart anything toward the agreed-upon price of over $1.2 million.

The Minnesota Department of Revenue also was deceived by the defendants. Morris and his mother led the agency to believe CyberStudy customers had paid for the online tutorial prior to applying for the tax credit, as required by law. Specifically, the defendants represented that customers had obtained loans from a third-party lender to cover the tutorial costs. Then, upon receipt of their tax refunds, the taxpayers were to repay that third party. In truth, however, no customer sought a third-party loan for that purpose. In fact, none of the customers paid for the CyberStudy tutorial before applying for the education tax credit. Instead, the defendants received payment for the tutorial only by diverting the tax refunds of CyberStudy customers. Contrary to defendants' representation to the Minnesota Department of Revenue that CyberStudy was privately funded, the sole source of the company's revenue between 2000 and 2002 was, in truth, Minnesota education tax credits.

In response to the verdict, J.D. Long, Postal Inspector and Public Information Officer for the St. Paul field office of the U.S. Postal Inspection Service, addressed his agency's role in the case. "This Postal Inspection Service has long been the leader in protecting the American consumer from being victimized by frauds and scams that use the U.S. mail or the mail and the Internet. Postal inspectors are the public's first and best line of defense against the myriad of scam artists trying to defraud them of their hard-earned money."

During 2001, the defendants filed or caused to be filed at least 1,500 false Minnesota Individual Income Tax Returns, covering tax year 2000. Those returns, filed on behalf of CyberStudy customers, claimed fraudulent refunds, based on the education tax credit, totaling a minimum of $1.6 million. In 2002, at least 300 similar returns were filed for tax year 2001. The fraudulent refunds sought through those returns totaled at least $500,000. In all, the defendants obtained more than $2.1 million from the Minnesota Department of Revenue.

As a result of their actions, the defendants received funds via wire transfer and the U.S. mail from the Minnesota Department of Revenue. In addition, on October 18, 2002, William Morris, Jr., willfully filed a false Federal Individual Income Tax Return that failed to report more than $400,000 in funds he received from CyberStudy in 2001. With the proceeds of their conspiracy, the defendants made a $300,000 payment on a home, purchased a $74,000 Mercedes SUV, and bought a $8,600 mink coat as well as a chinchilla-trimmed hat.

In 2002, after the Minnesota Department of Revenue discovered the defendants had misrepresented their tutorial, the agency determined that CyberStudy would not be an allowable claim under the education tax credit. For their crimes, the defendants face a potential maximum penalty of 20 years in federal prison for the charge of conspiracy to commit wire fraud, 20 years on each count of wire fraud, and 20 years on each count of mail fraud. William Morris, Jr., faces an additional potential maximum penalty of three years in prison for making and subscribing a false tax return. United States District Court Judge John Tunheim will determine their sentences at a future date.

This case is the result of an investigation by the IRS-Criminal Investigation Division and the U.S. Postal Inspection Service (“USPIS”). It is being prosecuted by Assistant U.S. Attorneys Timothy C. Rank and David M. Genrich.

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